

For Immediate Release

Hong Kong SME Sentiment Dips on Weaker Business Outlook Amid Rising Risk Concerns and Focus on Cost Control

- *More than two-thirds of SMEs say the Hong Kong economy worsened in 2019, with over 60% expecting it to weaken further this year*
- *Among those that see a weaker economic outlook, around two-thirds are focusing on cost control to counter a business and economic slowdown*
- *64% are concerned about business interruptions, but only 12% have appropriate insurance protection*

Hong Kong, 9 March 2020 – Business sentiment among small and medium enterprises (SMEs) in Hong Kong has worsened amid deepening concerns about the broader economy, pointing to a greater focus on tightening cost control in the year ahead, according to research released today.

The research, conducted before the outbreak of the coronavirus, shows that a significant number of Hong Kong SMEs saw weaker sales (44%) and a slowing economy (68%) in 2019, discernibly worse than their expectations in 2018 (26% and 54%, respectively). At the same time, their 2020 outlook is less rosy, with 45% and 62% anticipating mounting downward pressure on their businesses and the economy, respectively, citing deteriorating consumer confidence (63%), trade disputes (52%) and a decline in tourism (51%).

Commissioned by QBE Hong Kong, a member of QBE Insurance Group, the independent study “*SMEs: New Challenges for a New Decade*” draws on a survey of 400 SMEs conducted at the end of 2019. The findings are significant, as there are about 340,000 SMEs in Hong Kong, employing about 45% of the workforce in the city’s private sector¹.

“At QBE, we view SMEs as an important bellwether for the local economy, and the research reveals vulnerability among SMEs in Hong Kong towards the challenges of intensifying market volatility and unpredictability.

¹ [SMEs & Industry](#), The Trade and Industry Department of the Hong Kong SAR Government



“With the coronavirus outbreak now adding further pressure to this already struggling sector, this highlights the importance of factoring risk management and tailored insurance solutions into your business planning,” said Lei Yu, Chief Executive Officer for North Asia and Regional Head of Distribution, QBE Insurance.

Overseas expansion loses lustre for SMEs as focus turns to cost control

Amid a more downbeat outlook and business sentiment, Hong Kong SMEs are taking a conservative approach. Their appetite for overseas expansion shrank by six percentage points during the year to 38%. A range of reasons point to this including insufficient staff or skills (28%), a lack of overseas market know-how (27%), a lack of local partners (27%), insufficient funds (25%) and a lack of familiarity with overseas laws and regulations (24%). For those interested in venturing outside Hong Kong, the top five locations are the Greater Bay Area (29%), mainland China excluding the Greater Bay Area (20%), Japan (19%), Taiwan (18%) and Thailand (18%).

SMEs’ primary tactic to weather a weaker business environment is cost control (65%). This is despite rising operating costs (34%) being less of an issue in 2019 than in 2018 (54%). In fact, a growing number of SMEs in the survey indicated an intention to scale back across four key areas in 2019: capital spending (36%, up from 16%), staff training (37%, up from 23%), staff size (34%, up from 18%) and business size (31%, up from 15%).

“Despite their caution, SMEs are to some extent overlooking insurance as a means by which to manage risk, including business interruptions and damage to property”, Yu said. “There’s no doubt cost control is important in managing a business, but it’s only part of it. Insurance plays an essential role in improving business continuity and resilience for the long term. Enterprises with appropriate protection are better positioned to navigate unforeseen business interruptions in a volatile economic environment.

“SMEs may be tempted not to consider insuring their business income or against other risks as a means of reducing costs,” Yu said. “However, a more strategic approach would be to incorporate insurance as a form of business protection against potential income losses or balance sheet liabilities in the event of unforeseen circumstances. At QBE, we are always ready to provide advice and guidance to SMEs on finding cost-effective insurance solutions suited for their business.”



SMEs' risk concerns grow but inaction remains

SMEs' risk concerns have grown across the spectrum, in areas including losses of income due to business interruptions (64%), equipment breakdowns (62%), liability to third parties due to substandard products or services (61%), liability to third parties due to accidents (58%), damage to property (56%) and liabilities faced by directors and officers (42%). However, despite more SMEs taking out insurance in 2019 (91%, up from 86% in 2018), only a small number have insurance protection relevant to their most pressing concerns, leaving them vulnerable to risks that could potentially disrupt their business.

Also noteworthy is their increased awareness of cybersecurity risks in 2019 – at 91%, up 5 percentage points from 2018. Yet there has been a decline in insurance protection against cyberattacks to 20% from 33% in 2018. Remarkably, 20% of SMEs have no protective measures at all, such as cybersecurity software and insurance.

The new decade will be more technologically and digitally advanced, creating more uncertainties for SMEs. The value of insurance is in protecting against such uncertainties and helping businesses overcome unexpected challenges.

“While in the broadest sense, more SMEs are taking out insurance, there needs to be a keen focus on the types of insurance that are best suited to their specific needs,” added Yu. “As the new decade starts with more unpredictability and uncertainty than ever, it is important for SMEs to carefully review areas of genuine concern and obtain the appropriate insurance advice and protection so they can manage their business with confidence despite the challenging times ahead.”

About the Research Study

The “*SMEs: New Challenges for a New Decade*” research study was conducted by ENGINE on behalf of QBE Hong Kong. The study drew on an online survey of 400 Hong Kong SMEs completed in December last year. Among the SMEs surveyed, 76% were in the service industry offering wholesale/retail, health, arts and creation, IT, finance, education, real estate, professional services, transport, F&B, accommodation and more. The remaining 24% came from the non-service industry, mainly manufacturing, construction and engineering. The SMEs in manufacturing sector employ up to 99 employees, while the non-manufacturing ones have up to 49 employees.



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